

**COMMONWEALTH OF KENTUCKY**  
**BEFORE THE PUBLIC SERVICE COMMISSION**

**RECEIVED**

JUN 8 2004

PUBLIC SERVICE  
COMMISSION

In the Matter of:

THE TARIFF FILING OF COLUMBIA GAS OF	)	
KENTUCKY, INC. TO IMPLEMENT A SMALL	)	
VOLUME GAS TRANSPORTATION SERVICE,	)	CASE NO.
TO CONTINUE ITS GAS COST INCENTIVE	)	1999-00165
MECHANISMS, AND TO CONTINUE ITS	)	
CUSTOMER ASSISTANCE PROGRAM	)	

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**INTERSTATE GAS SUPPLY, INC.'S COMMENTS  
REQUESTING THE COMMISSION TO STAY ITS AUDIT OF  
THE COLUMBIA GAS OF KENTUCKY, INC. CHOICE PROGRAM**

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James R. Cox  
COX BOWLING & JOHNSON PLLC  
8303 Shelbyville Road  
Louisville, KY 40222  
Phone: 502/423-9998  
Fax: 502/423-9946  
E-mail: jcox@coxbowlingjohnson.com

Counsel for Petitioner,  
INTERSTATE GAS SUPPLY, INC.

Of Counsel:  
John W. Bentine, Esq. (0016388)  
E-Mail: jbentine@cwsllaw.com  
Direct Dial: (614) 334-6121

Bobby Singh, Esq. (0072743)  
E-Mail: bsingh@cwsllaw.com  
Direct Dial: (614) 334-6122

CHESTER WILLCOX & SAXBE LLP  
65 East State Street, Suite 1000  
Columbus, Ohio 43215-4213  
(614) 221-4000 (main number)  
(614) 221-4012 (facsimile)

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In response to the Commission's request set forth its June 1, 2004, Order, Interstate Gas Supply, Inc. ("IGS") respectfully submits that the Commission should, for now, stay its performance of an audit of the Columbia Gas of Kentucky, Inc. ("Columbia") Small Volume Gas Transportation Service Program ("Choice Program"). As discussed below, the Commission's staying of this audit is in the public interest.

In its January 27, 2000, Order in this case that initially approved the Choice Program, the Commission indicated that it would initiate an audit to evaluate all aspects of the Choice Program prior to its conclusion. As to the rationale for the audit, the Commission explained:

In order for rates to be as transparent as possible at the earliest possible time, the Commission finds that a review of costs and rates should be initiated before the end of the proposed five-year program period. . . . Because such information will be available at the time, the Commission will then begin the process of retaining an outside consultant, as authorized by KRS 278.255, to review all aspects of the Customer Choice Program, to review the issue of a competitive marketplace, and to conduct a fully allocated cost-of-service study that will show what, if any, rates will need to be rebalanced in order to correctly represent costs to provide service.

In addition to the cost review process that will begin at the end of the three-year period and conclude prior to the end of the five-year pilot period, any necessary modifications to the program itself and approved financial model will also be considered. The cost recovery that has occurred through the acceptable revenue opportunities of capacity assignment, balancing charges, off-system sales, and marketer contributions will be reviewed, and a recommendation made as to whether this method of stranded cost recovery should be continued or modified. Once the consultant's review and report have been completed, the Commission will initiate a proceeding wherein Columbia and other parties may address the results of the consultant's report and other issues relating to the Customer Choice program as identified by the Commission at that time.<sup>1</sup>

The above-quoted language demonstrates that the Commission intended to initiate the audit to evaluate the operation, management, and value of the Choice Program.

The record in this case demonstrates that Kentucky consumers have derived benefits from the Choice Program, and so has the Kentucky economy. Indeed, the Commission's analysis concluded that "customers that switched to a marketer have, in the aggregate, saved on their gas bill."<sup>2</sup> Beyond the aggregate actual cost savings to consumers, Kentucky consumers place a premium on the other values that they derive from the Choice Program, such as receiving a fixed rate for gas and having a choice of competitive suppliers. The sheer volume of migration (upwards of 30%<sup>3</sup>) to competitive suppliers among eligible consumers reveals that Kentucky consumers receive value from participating in the Choice Program.

Kentucky consumers desire the Choice Program, and have come to rely on its many benefits. However, Columbia's filings in this case also demonstrates that operational and administrative changes to the pilot Choice Program are necessary in order to make Columbia a neutral, or perhaps supportive, partner in the success of the Choice Program. In recognizing

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<sup>1</sup> See January 27, 2000, Order.

<sup>2</sup> See, September 25, 2003, Order at pg. 4.

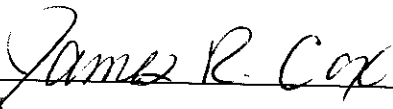
<sup>3</sup> See, e.g., May 2002 and May 2003 Choice Program Annual Reports issued by Columbia.

customers' desire for the Choice Program, Columbia and IGS met on June 7, 2004, and discussed modifications to the current program for purposes of its continuation, which would address Columbia's operational and risk needs while ensuring adequate flexibility to competitive suppliers and the continued development of the competitive marketplace in Columbia's service territory. It is IGS's desire that the Choice Program be continued in a manner that mitigates Columbia's related risks, thereby providing Columbia with incentives to allow its consumers to enjoy the many competitive benefits of the Choice Program.

Accordingly, interested parties will be engaging in discussions to design proposed revisions to the existing Choice Program for purposes of its continuation, which revisions will be presented to the Commission for its consideration. While parties engage in such discussions, IGS respectfully submits that it would be wasteful of the Commission's resources to audit a program for which proposed modifications are being designed. Moreover, to the extent the interested parties are able to agree upon modifications to the Choice Program for its continuation, the Commission could then determine whether or not it desires to audit a program for which stipulated-to revisions have been proposed, or whether the Commission desires to audit some approved revised program after the parties have operated under the revised structure. In other words, the parties' proposal of a revised Choice Program might obviate the need for the

Commission to evaluate the current program. Therefore, IGS respectfully requests the Commission to stay, for now, its performance of an audit of the pilot Choice Program.

Respectfully submitted,

  
James R. Cox  
COX BOWLING & JOHNSON PLLC  
8303 Shelbyville Road  
Louisville, KY 40222  
Phone: 502/423-9998  
Fax: 502/423-9946  
E-mail: jcox@coxbowlingjohnson.com

Counsel for Petitioner,  
INTERSTATE GAS SUPPLY, INC.

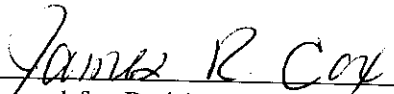
Of Counsel:  
John W. Bentine, Esq. (0016388)  
E-Mail: jbentine@cwsllaw.com  
Direct Dial: (614) 334-6121

Bobby Singh, Esq. (0072743)  
E-Mail: bsingh@cwsllaw.com  
Direct Dial: (614) 334-6122

CHESTER WILLCOX & SAXBE LLP  
65 East State Street, Suite 1000  
Columbus, Ohio 43215-4213  
(614) 221-4000 (main number)  
(614) 221-4012 (facsimile)

## **CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing Interstate Gas Supply, Inc.'s Comments Requesting the Commission to Stay its Audit of the Columbia Gas of Kentucky, Inc. Choice Program was mailed, postage prepaid, on June 8, 2004, to the below listed persons.

  
Counsel for Petitioner

### **SERVICE LIST**

Stephen B. Seiple, Esq.  
Senior Attorney  
Columbia Gas of Kentucky  
P.O. Box 117  
Columbus, Ohio 43216-0117

Richard S. Taylor, Esq.  
225 Capital Avenue  
Frankfort, KY 40601

David J. Barberie, Esq.  
Edward W. Gardner, Esq.  
Lexington-Fayette Urban County  
Government  
Department of Law  
200 East Main Street  
Lexington, KY 40507

Attorney General for the Commonwealth  
of Kentucky  
ATTN: Bob Gray, Director  
Rate Intervention  
1024 Capital Center Drive  
Frankfort, KY 40601

Joe F. Childers  
Community Action Council for  
Lexington-Fayette, Bourbon, Harrison &  
Nicholas Counties, Inc.  
Suite 310, 201 West Short Street  
Lexington, KY 40507

Hon. David F. Boehm  
Boehm, Kurtz & Lowry  
2110 CBLD Center  
36 East Seventh Street  
Cincinnati, OH 45202

Hon. Anthony G. Martin  
Attorney at Law  
P.O. Box 1812  
Lexington, KY 40593

Hon. Ann Louise Cheuvront  
Assistant Attorney General  
Civil & Environmental Division  
Public Service Litigation Branch  
P.O. Box 2000  
Frankfort, KY 40602

Hon. Mary R. Harville  
Reed, Weitkamp, Schell & Vice PLLC  
500 West Jefferson St., Suite 2400  
Louisville, KY 40202

Commonwealth Energy Services  
5th Floor, 745 West Main Street  
Louisville, KY 40202

Hon. Craig G. Goodman  
Hon. Stacey L. Rantala  
Hon. Heather L. Master  
National Energy Marketers Association  
3333 K Street, N.W., Suite 110  
Washington, D.C. 20007

Hon. Janine L. Migden  
Hahn, Loeser & Parks, LLP  
1050 Fifth Third Center  
21 East State Street  
Columbus, OH 43215